

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 343 - SB 1448**

February 11, 2023

**SUMMARY OF BILL:** Exempts from state and local sales and use tax all sales of gun safes and individual computerized gun safety devices through FY23-24.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$1,351,700/FY23-24**

**Increase State Expenditures – \$577,700/FY23-24**

**Increase Local Revenue – \$27,500/FY23-24**

**Assumptions:**

*General Assumptions*

- Public Chapter 592 of 2021 created a sales tax exemption for gun safes and gun safety devices sold between July 1, 2021 and June 30, 2022; Public Chapter 1053 of 2022 extended such exemption for sales occurring between July 1, 2022 and June 30, 2023; this legislation will continue such exemption until June 30, 2024.
- Exempting sales of gun safes and gun safety devices from state and local sales tax will result in a reduction in state and local sales tax revenue in FY23-24.
- However, pursuant to Tenn. Code Ann. § 67-6-710(g)(1), the state will reimburse any local losses of revenue from sales tax holidays; therefore, any decrease in local revenue will correspond with an increase in state expenditures to reimburse locals for such loss.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent

*Gun Safes and Safety Devices*

- Retail prices for gun safes and safety devices can range from under \$100 upwards of \$10,000 or more.
- DOR requires dealers to report all sales of gun safes and safety devices during the sales tax holiday.
- Based on information provided by DOR, exempt sales for gun safes and safety devices under current law were \$10,098,849 from July 2022 to December 2022. To account for a full year impact, it is assumed exempt sales for gun safes and safety devices will be \$20,197,698 (\$10,098,849 x 2) in FY22-23.

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- Fiscal Review Committee staff's current estimates for total sales tax collection growth rates is 4.06 percent in FY23-24. Assuming identical growth rates in taxable sales from the gun safes and safety devices, total such sales are estimated to be \$21,017,725 (\$20,197,698 x 1.0406) in FY23-24.
- Based on information provided by DOR, there were 12 transactions that would have been subject to single article taxes in the absence of the tax exemption from July 2022 to December 2022. For the purposes of this analysis, it is assumed there will be 24 such transactions in FY23-24.
- The Tennessee single article tax on the price of goods over \$1,600 and below \$3,200 is effectively \$44 [(\$3,200 - \$1,600) x 2.75% single article tax]. It is assumed that all 24 transactions would be subject to the full \$44 single article tax under current law.
- The decrease in state sales tax revenue is estimated to be \$1,419,082 [(\$21,017,725 x 7%) - (\$21,017,725 x 7% x 3.617%) + (24 x \$44)] in FY23-24.
- Pursuant to Tenn. Code Ann. § 67-6-702(a) the local option sales tax only applies to the first \$1,600 of the sales price. Given that approximately 24 transactions will exceed \$1,600, and further assuming that all such transactions will exceed \$3,200, it is reasonably assumed that approximately \$38,400 in sales [24 x (\$3,200 - \$1,600)] will not be subject to local option sales tax.
- The increase in state expenditures is estimated to be \$577,698 {[((\$21,017,725 - \$38,400) x 2.5%) + (\$21,017,725 x 7% x 3.617%)] in FY23-24.
- Fifty percent of tax savings, or \$998,390 [(\$1,419,082 + \$577,698) x 50%], will be spent in the economy on other sales-taxable goods and services.
- The increase in state sales tax collections is estimated to be \$67,359 [(\$998,390 x 7%) - (\$998,390 x 7% x 3.617%)] in FY23-24.
- The increase in local sales tax collections is estimated to be \$27,488 [(\$998,390 x 2.5%) + (\$998,390 x 7% x 3.617%)] in FY23-24.
- The net decrease in state revenue as a result of this bill is estimated to be \$1,351,723 (\$1,419,082 - \$67,359) in FY23-24.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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